



Melbourne Football Club Ltd

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Dear Member

Briefing Material - Proposed Merger

This letter, as well as the attached information sheets, are forwarded to provide you with some background material relating to our recommendation. (A full *Information Kit* will be forwarded shortly.)

Nobody wants to merge!

As President of the Melbourne Football Club, recommending to its members that the Club should merge, certainly does not sit comfortably with me!

As publicly stated, I could allow the Club to continue for a couple of years, and when the signs became more ominous, simply walk away and leave the problem to someone else. However, that would be irresponsible and I have never taken the soft option!

People must understand that the old VFL is dead and buried and the national competition is here to stay. It is a new scene completely. Football has reached the status of a business, and a fairly big business.

Development of Strategic Business Plan

In May, the MFC held a two-day planning seminar at Hepburn Springs attended by the full Board and the following senior personnel :

Hassa Mann	- Chief Executive
Neil Balme	- Coach
Richard Griffiths	- Football Manager
Chris Jones	- Fitness Adviser
Libby Crosthwaite	- Marketing Manager
John Anderson	- Business Manager

A professional facilitator, Warwick Cavell from Mindshop Training (Australia) Pty Ltd was engaged to develop a strategic business plan to take the MFC into the year 2000 and beyond.

The recommended process included

- establishing where the Club is **NOW**
- **WHERE** the Club would like to be in the next 5 years; and
- **HOW** the aims could be achieved

By using the above criteria, it was considered that our off-field results were considered reasonably good whilst the on-field performance was poor.

We then identified the key issues with regards to **WHERE** we would like the Club to be over the objective period.

The key issues :

1. How could the Club ensure that we had players talented enough to make the finals on a regular basis with the opportunity to challenge for a Premiership?
2. How could the Club secure its own integrated 12 month administration/training venue without cricket interference, including a gymnasium, expanded player facilities and a social club?
3. How could the Club ensure ongoing financial viability by attracting
 - (a) a minimum membership of 20,000
 - (b) increased sponsors and sponsorships; and
 - (c) other avenues of income.

Work groups were formed to investigate, report and recommend how the key issues could best be achieved. The comprehensive study was conducted over a two month period with weekly report meetings.

Final recommendations from all groups, operating completely independently, were compiled and presented to the Board for their review and approval.

The attached briefing papers outlining both the current status and projections relating to finance, and football matters, will give you an insight into the depth of the studies undertaken.

Administration Offices & Training Venue

With regards to the integrated administration/training venue a number of alternate options were investigated; initially our prime objective being to develop the Junction Oval.

Our number one requisite was to acquire an exclusive 12 month training ground with no cricket interference. With a Melbourne Cricket Club, Victorian Cricket Association and St Kilda Cricket Club lease agreements in place, our first objective could not be achieved.

Additionally, to locate the administration offices at the Junction Oval, the Club would have to finance the building at a cost of approx \$1 million. I am not prepared to commit the football club to a commercial loan particularly when we are limited to a six month occupancy.

We considered a number of venues, amongst others, Prahran Football Ground, Elsternwick Park, Yarra Valley Country Club and Caulfield Racecourse.

Of all of the venues investigated Glenferrie Oval offered, at no cost to the MFC, the exclusive use of the ground, recently renovated administration offices, extended player facilities (spa, gymnasium etc), ample car parking, PLUS a social club and gaming venue.

Membership

If history created membership, then the Melbourne Football Club would have the largest membership in the land.

In the past three years, the goal of increasing our membership to 20,000 has been the Marketing Department's number one priority.

Notwithstanding the following efforts, our membership has only increased some 4,000 in the past five years

- numerous inserts forwarded to 55,000 Melbourne Cricket Club members
- constant appeals by both Presidents of the MFC and MCC
- introduction of renewal forms
- increased MCC and general membership categories
- extensive television, radio and print media campaigns
- incentive schemes to sign up new members
- increased membership presence on match days
- tele-marketing and letter follow-up to non-renewing members over a period of two years
- campaign expenditure valued in excess of \$500,000

we still have only 13,000 members.

Although there has been a strong emphasis on increasing our membership in 1995/96, the reality is that membership represents less than 10% of the 1996 income.

With future costs expected to increase substantially, membership alone will not make up the shortfall and even a membership of 20,000 still only equates to 15% of 1996 income and less than 10% of projected 2001 break-even income.

Melbourne Cricket Club

The MCC has advised that the new entity would receive the same support currently enjoyed by the Melbourne Football Club. Further, they will continue to treat the Club as a Section of the MCC retaining all player benefits.

The MCC's desire to support us is of paramount importance and the MFC would not entertain the thought of a new union without their sanction.

History

People say that the history of the Club will be lost. I say "history is history"! - it can never be lost **because it is history**. In fact it will make both clubs recognise history more than ever and establish a history museum.

History says that we were the Melbourne Fuchsias, the Melbourne Redlegs, the Melbourne Demons - maybe the Melbourne Hawks, so we are entering a new phase of our history.

History is what has happened, not what will happen. When something happens that becomes part of history, so in one year's time, the Melbourne Hawks will be part of that history.

So what if we have three phases to the history of both the clubs, Melbourne's history to 1996, Hawthorn's history to 1996, and the Melbourne Hawks history which will be developed as time goes on.

People cannot stop the future happening because of what has happened before. If you follow that line we would have no cars, no computers, no electric light, no telephones etc. Changes will continue to happen no matter what we all may think - and then history will be created.

It should be pointed out that already the history of the Melbourne Football Club is split. Up until 1980 we were the Melbourne Cricket Club, Football Section, and any Premiership cups won by the club prior to that time are the property of the Melbourne Cricket Club. When the club incorporated in 1980 and became the Melbourne Football Club, whatever we won during that period of 16 years belongs to the MFC.

Proposed Club Structure

People should be aware that if members of both clubs support the re-structure, the Board would comprise 7 members from each club, a total of 14 Directors with an independent Chairman appointed by the MCC. All current staff positions would be declared vacant and existing staff invited to re apply.

AFL Rules

The new entity can expect

- \$6,000,000 incentive
- the right to choose the best 44 players from both club lists
- the right to trade into the November 1996 National Draft
- salary cap concessions - \$300,000 in 1997, \$200,000 in 1998 and \$100,000 in 1999
- a guarantee of 10 MCG home games in the first three years with a long-term guarantee of 9 or 10 home games annually alternating on a continuous basis

General Comment

No-one has yet been able to offer me an alternative practical option that would guarantee the club an increase in turnover of at least \$1.5 million next year, \$3 million in 1998, \$4.5 million in 1999, \$6 million in 2000 and \$7.5 million in 2001. This equates to an operating budget of \$15 million in 2001.

Currently the club's turnover is approximately \$7.6 million. Some Victorian and interstate clubs are already operating on a budget in excess of \$12 million and within five years they will be operating on a turnover of \$20 million plus per year. This gap will not narrow - it will widen.

It has been suggested in the media that the club should consider delaying the decision to merge for 12 months. This would have disastrous ramifications including a negative impact on sponsorship and membership sales, fundraising, the re-contracting of existing players, the acquisition of new recruits, not to mention the pressure and tension placed on all personnel (coaches, players and staff) with the uncertainty of tenure.

Recommendation

Football today is an expanding business albeit it is still about players, coaches and supporters. But unfortunately it is also about money and therefore, I am recommending that you support this re-positioning of the club, because otherwise the future of the Melbourne Football Club may be very unpalatable.

My endorsement is based on the investigative Work Group reports whose findings ***all recommended*** that the Club should consider a merger, preferably with Hawthorn.

With your support the Melbourne Hawks will be one of the most powerful and influential teams both on and off the field matching the resources of the interstate clubs currently dominating the competition.

I have no doubt, that if Melbourne does not merge now, we will become a victim of the system, and therefore not be able to survive as a single entity.

***Again, I must remind people that this is all about the future.
We do not want to see this club ever face a Fitzroy-type exit.***

I J Ridley
PRESIDENT

Briefing Paper - Finance

It is true that currently the Melbourne Football Club is profitable and debt free.

For your information set out below is a summary of the expected operating results for the year ended 31 October, 1996.

	\$ million	\$ million
<i>Players Payments - as per salary cap</i>	2.5	
<i>Other football costs</i>	<u>1.8</u>	
	4.3	
 <i>AFL Income</i>	1.5	
<i>Match Receipts</i>	0.7	
<i>Memberships</i>	<u>0.8</u>	
	3.0	
<i>Shortfall</i>	1.3	
<i>Administration & Overheads</i>	<u>0.7</u>	
<i>Net Funds required to be raised</i>	2.0	
 <u><i>Net funds are raised from</i></u>		
<i>Sponsors/MCC</i>	1.0	
<i>Supporter Groups</i>	0.6	
<i>Fundraising</i>	<u>0.6</u>	
	2.2	
<i>Marketing Costs</i>	<u>0.4</u>	
<i>Net raised from Groups & Fundraisings</i>	1.8	
 <i>Loss from MFC Operations</i>	0.2	
<i>Gaming Income from Leighoak</i>	0.6	
<i>Net Surplus</i>	<u>0.4</u>	

This will be achieved on a gross turnover of \$7,600,000.

Other football costs are made up of injury payments, superannuation, payroll tax, coaches, medical staff, training staff and player supplies and costs.

It has been suggested by some people that by recommending a merge with Hawthorn, the Melbourne Football Club Ltd Board is taking the soft and easy option.

Those who know Ian Ridley and the rest of our Board know just how preposterous that assertion is.

The easy option would be to get out while the going is good, having corrected our financial position.

The Board have turned a deficit of \$750,000 in the 1992 year to an expected profit this year of \$450,000, mainly due to tight budgeting and cost controls, great support from our staff, and the success of Leighoak.

The Club is debt free, and at the end of this year will have net liquid assets of \$1,300,000.

The Club can survive financially short term - provided that the current level of memberships, sponsorships, groups and functions net income is maintained, our new gaming venue at Fawkner is successful, and Leighoak continues at the current level.

The soft option would be to get out in a short time and leave the future problems to those who follow, as a major problem will inevitably arise in the next few years.

With the advent of a national competition, the challenges and obstacles and indeed the funds required to successfully operate an AFL club, have increased dramatically. These will continue to increase more drastically in the future, especially in the next five years.

In future, to operate successfully in the AFL, a club will be required to have a strong viable membership base, be competitive on field and have the necessary ongoing funding to ensure long term viability.

Memberships

Despite our best endeavours our membership is still less than 13,000.

Membership in 1996 (AFL figures - June 1996)

Melbourne	12,964
which is 53% of Essendon	24,324
and 30% of Adelaide	42,283
Membership below Essendon	<u>11,360</u>
assume at \$80 for Adult	\$909,000

Match Receipts 1995

Essendon	\$1,372,000
Melbourne	<u>\$633,000</u> <u>\$739,000</u>

Melbourne are behind Essendon in relation to membership and match receipts by	<u>\$1,648,000</u>
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Of the Victorian based clubs in 1996 the only ones with lower memberships were Fitzroy 7,628, Footscray 10,650 and Hawthorn 12,484.

It is difficult to see this position improving markedly.

Salary Cap

The salary cap is expected to rise by at least \$2,000,000 over the next five years to as high as \$4,500,000 in 2001 (a rise of 80%).

As the salary cap represents 60% of football costs, annual football costs would be expected to increase over the same period by \$3,300,000.

The AFL dividend is expected to rise by \$900,000 over the same period. It would then contribute less than one third of football costs.

This leaves an additional net shortfall to be funded in 5 years time of \$2,400,000 per annum.

Assuming that these funds would need to be generated from traditional areas such as sponsorship and fundraising (which contribute around 40% profit margin) this would mean that additional annual gross revenue of \$6,100,000 per annum must be generated by 2001.

Gross income generated by MFC from sponsorships, support groups, MCC, fundraising and memberships will amount to \$4,300,000 in 1996.

This will need to increase to \$10,400,000 per annum in 5 years time (an increase of 142%). To increase our income from traditional sources to these levels does not appear realistic (e.g. membership increased to 31,372 in 2001).

In order to maintain our current position our gross income from all sources would need to be :

- 1997 \$9,100,000
- 1998 \$10,200,000
- 1999 \$11,600,000
- 2000 \$13,100,000
- 2001 \$14,600,000

It should be noted that some of our competitors are currently operating at these levels already, and it would be expected that the current gap would not decrease over that period but in fact would widen.

Substantial additional income has been generated from Leighoak. In the last 12 months it had the highest turnover of any AFL club venue and in the last 2 months had the second highest turnover of any TAB club venue. So any further growth potential is strictly limited.

If not for Leighoak, this Club would not be recording a profit this year.

If a merger did occur with Hawthorn this would result in a debt free entity with three, possibly four, gaming venues and substantial cash funds.

To obtain quality modern training facilities available 12 months of the year, with a social club and the ability to house integrated football and administration sections, as well as having access to a gaming venue with 100 machines with great potential growth, it would cost the Melbourne Football Club in its own right many millions of dollars (which it does not have) providing such suitable premises could be obtained. These are all assets that Hawthorn would bring to a merged entity.

In their due diligence report, Price Waterhouse projected strong on-going profit for the Melbourne Hawks with resources comparable to the most powerful AFL clubs.

Although recommending a merge with Hawthorn is definitely not the soft, easy option it is the most responsible, makes the most fiscal sense for the continued long-term existence and success of our Club.

W E Balcam
FINANCE DIRECTOR
MELBOURNE FOOTBALL CLUB

Briefing Paper - Football

The Changing Face Of Football

Background

This year, the Board in its wisdom determined it was now imperative for the Club to adopt a more professional approach and develop a Strategic Business Plan. All Directors and key administrative and coaching staff participated in the total program.

As a result, extensive research and study by the above personnel confirmed that to achieve the identified objectives, the Club's best option was to merge.

Overview

Football has changed dramatically since the inception of the VFL (now AFL) Commission in 1984.

Most innovations and changes have been for the advancement of our great national game albeit, in many cases, at a substantial cost to all AFL Clubs.

In chronological order the major changes have been:

- 1984 Salary Cap introduced
- 1986 First National Draft
- 1987 Interstate Clubs (Perth & Brisbane) entered competition
- 1991 Interstate Club Adelaide entered competition
Final Six introduced
First interstate final (Perth)
- 1992 Victorian State Football League replaced Reserve /U19s
- 1993 First night final
- 1994 Introduction of 3 central / 3 boundary umpire system
Final Eight introduced
AFL Players Association formed
- 1995 Interstate Club Fremantle entered competition
- 1996 AFL Commission approved Port Adelaide's 1997 entry into competition

MFC Future Concerns

Club Budgets

One of the MFC Board's major concerns is the expenditure explosion in the projected budgets over the next five years. The spiralling cost of operating an AFL club over this period will escalate at an alarming rate, and with the traditional methods of raising football funds fully exhausted, the Board believes it cannot achieve the future required budgets necessary to survive as a single entity.

Budget Growth Profile:	1990	\$5 Million
	1996	\$7.6 Million
	2001 est.	\$15 Million

Note: Some Victorian and Interstate Clubs are already operating on a budget in excess of \$12 Million

Salary Cap

Increases of \$350,000 and \$300,000 for the 1997 and 1998 seasons have already been approved by the AFL Commission. For the existing 10 Victorian Clubs alone this equates to an additional \$6.5 Million dollars in player payments that has to be raised in the next 2 years.

Salary Cap Growth Profile:	1985	\$1.100 Million
	1996	\$2.550 Million
	1998	\$3.200 Million
	2001 est.	\$4.500 Million **

**** based on AFL information and input from personnel from other AFL clubs, the Salary Cap is projected to increase some 80% in five years.**

Player Payments

Player payments have risen substantially in the past five years and will continue to spiral upwards, particularly with the advent of player managers/agents now playing a key role in contract negotiations.

Player Payments Profile:	1991	\$40,000	Aver Salary (*)
	1995	\$70,000	" " (*)
	2001 est.	\$110,000	" "

(*) AFL figures

Player Free Agency

The key issue in the next AFL Players Association negotiations in 1998 will be the Player Free Agency Rule. This rule will entitle players, after a period of service, to become 'free agents' and be recruited by the club with the biggest cheque book. This will have a significant inflationary effect on player payments and unless clubs are financially secure, they will not retain / gain quality players.

If Melbourne remains as a single entity, the club will not have the financial resources available to compete with the wealthy Victorian and Interstate clubs in 'free agency' trading.

National Draft

The objective of the National Draft was to even up the competition. Whilst this has to a degree been achieved, currently with the AFL concessions in place to assist Port Adelaide's entry into the competition, Melbourne's first selection this year will be around number 13 then 29, 45 and so on. This obviously will not greatly improve our player list.

Any pre draft trading of quality players will not come without a cost to our current list of players. The AFL 'system' today simply does not allow the **cash** recruitment of out-of-contract players but rather a player-for-player exchange. AFL clubs with strong player depth are better positioned than Melbourne to participate in pre-draft trading. Melbourne simply cannot afford to barter for quality players as our player depth precludes this activity.

MFC Player List

A review of the Club's player list profile highlights a major concern. It is hard to see how, over the next three years, the Melbourne Football Club with the current AFL Rules in place (eg concessions etc), the National Draft, Port Adelaide entering the competition in 1997, and the doubts over injured and ageing players, can put a seriously competitive team on the field if it remains an independent club.

MCG Fixture Matches

Today, clubs with a low membership base and occupying a lowly position on the AFL Premiership Ladder will find it increasingly difficult to demand and expect major fixture matches on the MCG. This in turn has a significant affect on match receipts and sponsorship income. Melbourne's poor on-field performances have certainly reflected on this years home & away match attendances and gate receipts.

H P Mann
CHIEF EXECUTIVE
MELBOURNE FOOTBALL CLUB